

Message Text

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ORIGIN EB-11

INFO OCT-01 EUR-25 EA-11 NEA-14 ISO-00 SP-03 AID-20 NSC-07

RSC-01 CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12

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FM SECSTATE WASHDC

TO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMEMBASSY VIENNA

INFO AMEMBASSY NEW DELHI

USMISSION OECD PARIS

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E.O. 11652:GDS

TAGS: EFIN, IN

SUBJECT: INDIAN DEBT RESCHEDULING

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1. THE UNITED STATES HAS INFORMED THE GOVERNMENT OF INDIA THAT THE U.S. IS PREPARED TO INCREASE ITS DEBT RESCHEDULING FROM DOLS 29 MILLION AS OFFERED IN THE MAY CONSORTIUM MEETING TO DOLS. 45 MILLION. IT IS OUR HOPE THAT THIS

OFFER OF INCREASED U.S. PARTICIPATION WILL FACILITATE EARLY AGREEMENT BY CREDITORS ON A RESCHEDULING FOR INDIA WITHIN THE CONSORTIUM.

2. THE U.S. HAS ALSO ADVISED WORLD BANK PRESIDENT MCNAMARA THAT THE U.S. BELIEVES THAT IF THERE ARE ANY FUTURE DEBT RESCHEDULING REQUESTS BY INDIA, THEY SHOULD BE NEGOTIATED IN THE FRAMEWORK OF A CREDITOR CLUB, RATHER THAN THE AID-TO-INDIA CONSORTIUM. THIS POLICY DECISION DOES NOT AFFECT OUR SUPPORT FOR THE AID-TO-INDIA CONSORTIUM WHICH WE WOULD EXPECT TO CONTINUE TO BE THE FOCAL POINT FOR COORDINATION OF FOREIGN ASSISTANCE AND DISCUSSION OF DEVELOPMENT ISSUES.

3. WE ARE CONSIDERING A USG POLICY THAT ALL DEBT RELIEF FOR ANY COUNTRY BE NEGOTIATED IN CREDITOR CLUBS.

4. REQUEST YOU INFORM APPROPRIATE HOST GOVERNMENT OFFICIALS IN THE FOREIGN AND FINANCE MINISTRIES OF THE

PROPOSED U.S. POSITION ON THE APPROPRIATE FORUM FOR DISCUSSING ANY FUTURE RESCHEDULING REQUESTS AND ADVISE US OF THEIR VIEWS ON THE ISSUE.

5. THE FOLLOWING "BACKGROUND" ON THE ROLE OF AID-CONSORTIA IN DEBT RESCHEDULING MAY BE OF ASSISTANCE IN YOUR DISCUSSIONS WITH HOST GOVERNMENT OFFICIALS:

MULTILATERAL DEBT RENEGOTIATIONS HAVE GENERALLY BEEN UNDERTAKEN UNDER THE AUSPICES OF AD HOC GROUPINGS, CHAIRED BY ONE OF THE MAIN CREDITOR GOVERNMENTS (E.G., THE "PARIS CLUB", THE "LONDON CLUB" ETC.). THE FOCUS OF THESE CREDITOR CLUBS HAS BEEN THE CORRECTION OF SEVERE BALANCE OF PAYMENTS DIFFICULTIES.

ALTHOUGH OPPOSED TO USING THE NEED FOR DEVELOPMENT LIMITED OFFICIAL USE
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ASSISTANCE AS JUSTIFICATION FOR RESCHEDULING, THE U.S. DID -- IN 1968 -- BEGIN EXTENDING DEBT RELIEF TO INDIA THROUGH AN IBRD CHAIRED AID CONSORTIUM LARGELY ON THE BASIS OF LONG-TERM BALANCE OF PAYMENTS AND DEVELOPMENT CONSIDERATIONS. THE U.S. HAS ALSO PARTICIPATED IN DEBT RELIEF TO PAKISTAN THROUGH THE IBRD CHAIRED AID-TO-PAKISTAN CONSORTIUM.

THE IBRD AND SIMILAR INTERNATIONAL LENDING AGENCIES HAVE CLAIMED EXEMPTION FROM DEBT RESCHEDULING ON THE GROUNDS THAT THEIR "PREFERRED CREDITOR" POSITION IN THE BOND MARKETS WOULD BE ADVERSELY AFFECTED IF THEY FAILED TO OBTAIN SCHEDULED REPAYMENTS. IN ONLY TWO CASES HAS

THE IBRD RESCHEDULED DEBT, ALTHOUGH THEY HAVE BEEN PREPARED TO ASSIST IN THE ALLEVIATION OF A DEBT CRISIS BY PROVIDING NEW LOANS, AS THEY DID WHEN PROVIDING CHILE WITH A LOAN TO COVER CHILE'S IBRD ARREARAGES. THE WORLD BANK IS NOW THE LARGEST SINGLE EXCEPTION TO THE MOST FAVORED NATION PRINCIPLE WHICH IS DESIGNED TO INSURE THAT ALL CREDITORS SHARE THE RISKS OF LENDING IDENTICALLY IN THE EVENT OF RESCHEDULING.

AMONG THE DISADVANTAGES (IN EXCEPTIONAL CASES THERE COULD BE SOME ADVANTAGES) TO NEGOTIATING DEBT RESCHEDULINGS WITHIN AN AID CONSORTIUM FRAMEWORK ARE:

-- THE EXISTENCE OF A PERMANENT GROUP WITH DEBT RELIEF AS PART OF ITS TERMS OF REFERENCE ENCOURAGES THE BELIEF THAT DEBT RELIEF IS A NORMAL, RATHER THAN EXCEPTIONAL, PROCEDURE.

-- AID CONSORTIA ARE PRIMARILY CONCERNED WITH DEVELOPMENT CONSIDERATIONS, AND DEALING WITH DEBT THROUGH THEM

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SUGGESTS THAT DEBT RELIEF IS BEING USED AS A SUBSTITUTE FOR AID.

-- THE CHIEF PROMOTER OF AN AGREEMENT WITHIN A CONSORTIUM FRAMEWORK, I.E., THE BANK, DOES NOT HAVE A VESTED CREDITOR INTEREST.

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-- CONGRESS HAS ALREADY MOVED TO LIMIT EXECUTIVE BRANCH DISCRETION IN THE AREA OF DEBT RELIEF; THE RECENT WOLFF AMENDMENT (TO THE DISASTER RELIEF ACT) WAS LARGELY THE OUTGROWTH OF CONGRESSIONAL RESENTMENT AT LAST FEBRUARY'S INDIAN RUPEE SETTLEMENT. IF DEBT RELIEF WERE TO BE INCREASINGLY UTILIZED AS A SUBSTITUTE OR SUPPLEMENT FOR AID -- AS MIGHT BE LIKELY IN THE CONSORTIUM FRAMEWORK -- THERE WILL ALMOST CERTAINLY BE MORE CONGRESSIONAL RESTRAINTS IMPOSED.

-- SINCE THE BANK REFUSES TO PARTICIPATE IN DEBT RESCHEDULING, IT MAY FIND IT BOTH INCREASINGLY DIFFICULT AND UNCOMFORTABLE HAVING TO ACT IN A POSITION RECOMMENDING OTHER CREDITORS RESCHEDULE. KISSINGER

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COPENHAGEN
THE HAGUE
LONDON
OSLO
OTTAWA

PARIS
ROME
STOCKHOLM
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